

The California State Budget: *Groping for a Solution*



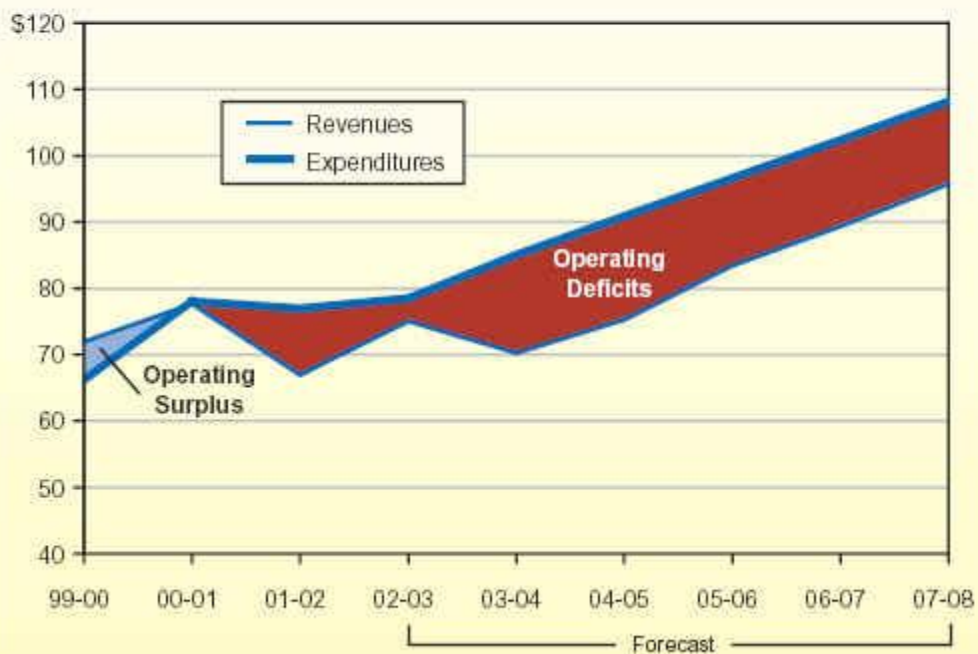
Daniel J.B. Mitchell
Ho-Su Wu Professor
Winter 2005

The only thing we learn from history....

Figure 3

Current Law Operating Deficits to Persist

General Fund
(In Billions)



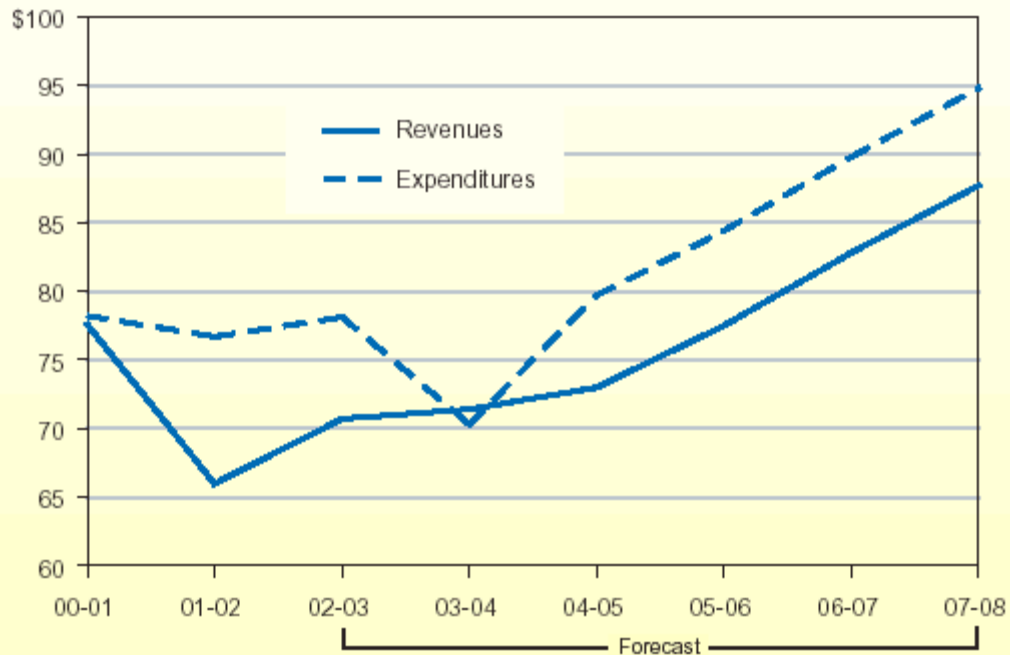
LAO: November 2002

The only thing we learn from history....

Figure 7

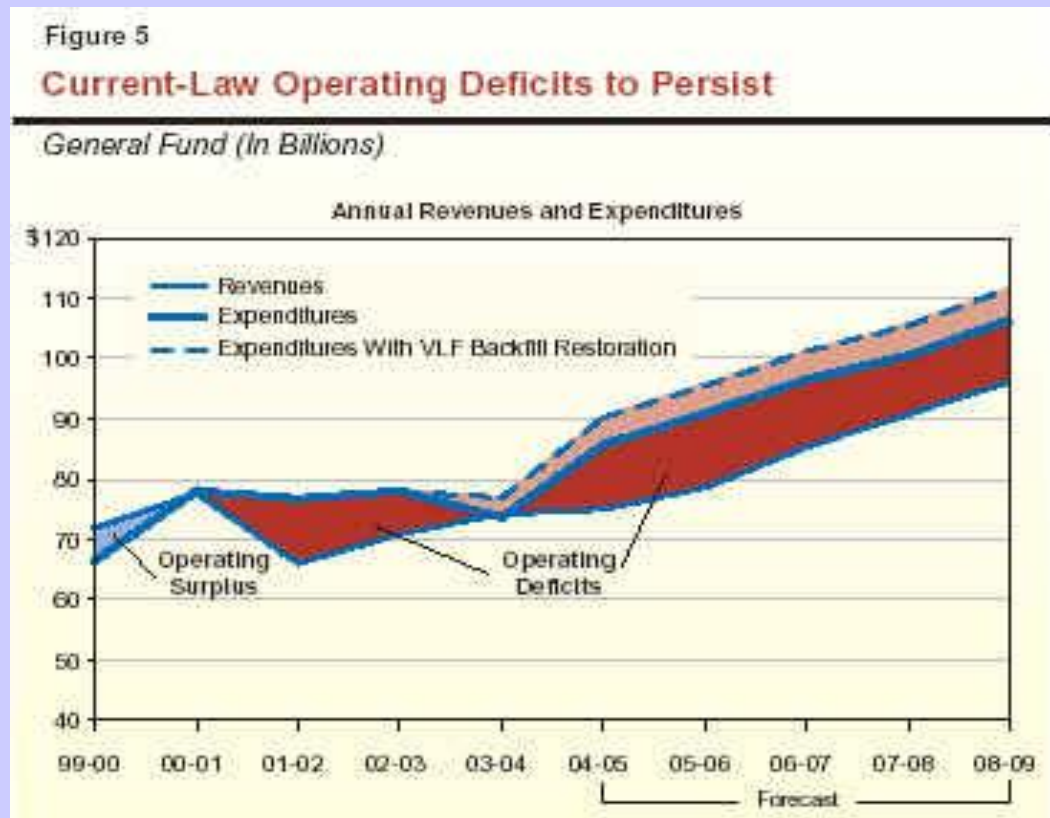
Persistent Gap Would Reemerge Under Governor's Plan

General Fund
(In Billions)



LAO: May Revise 2003

The only thing we learn from history....



LAO: November 2003

***“We have a great budget.
The May revise is really
spectacular.”***



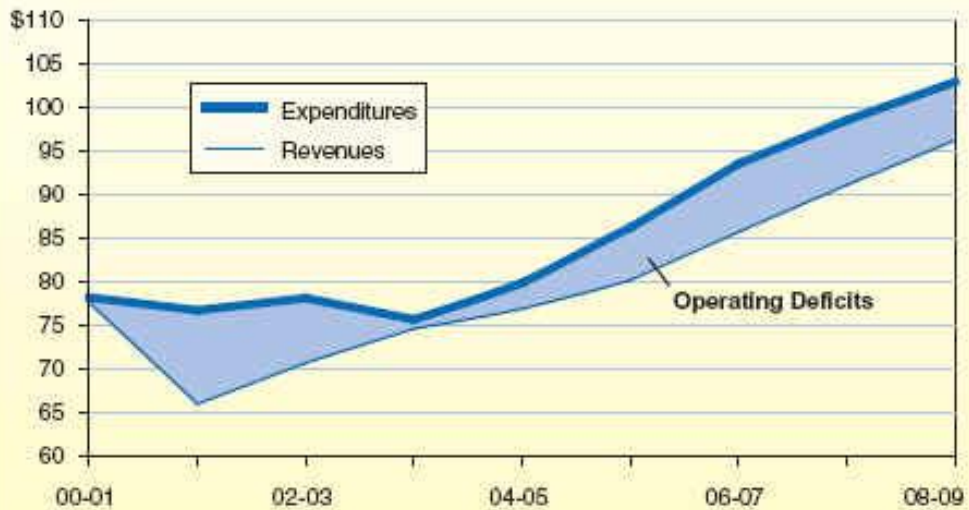
**Governor Arnold
Schwarzenegger
describing his May revise
budget proposal**

The only thing we learn from history....

Figure 12

Large Operating Shortfalls to Persist Under May Revision^a

General Fund
(In Billions)



^a LAO estimates. Excludes proposed use of Economic Recovery Bond proceeds.

LAO: May Revise 2004

The Age of Compacts



budget

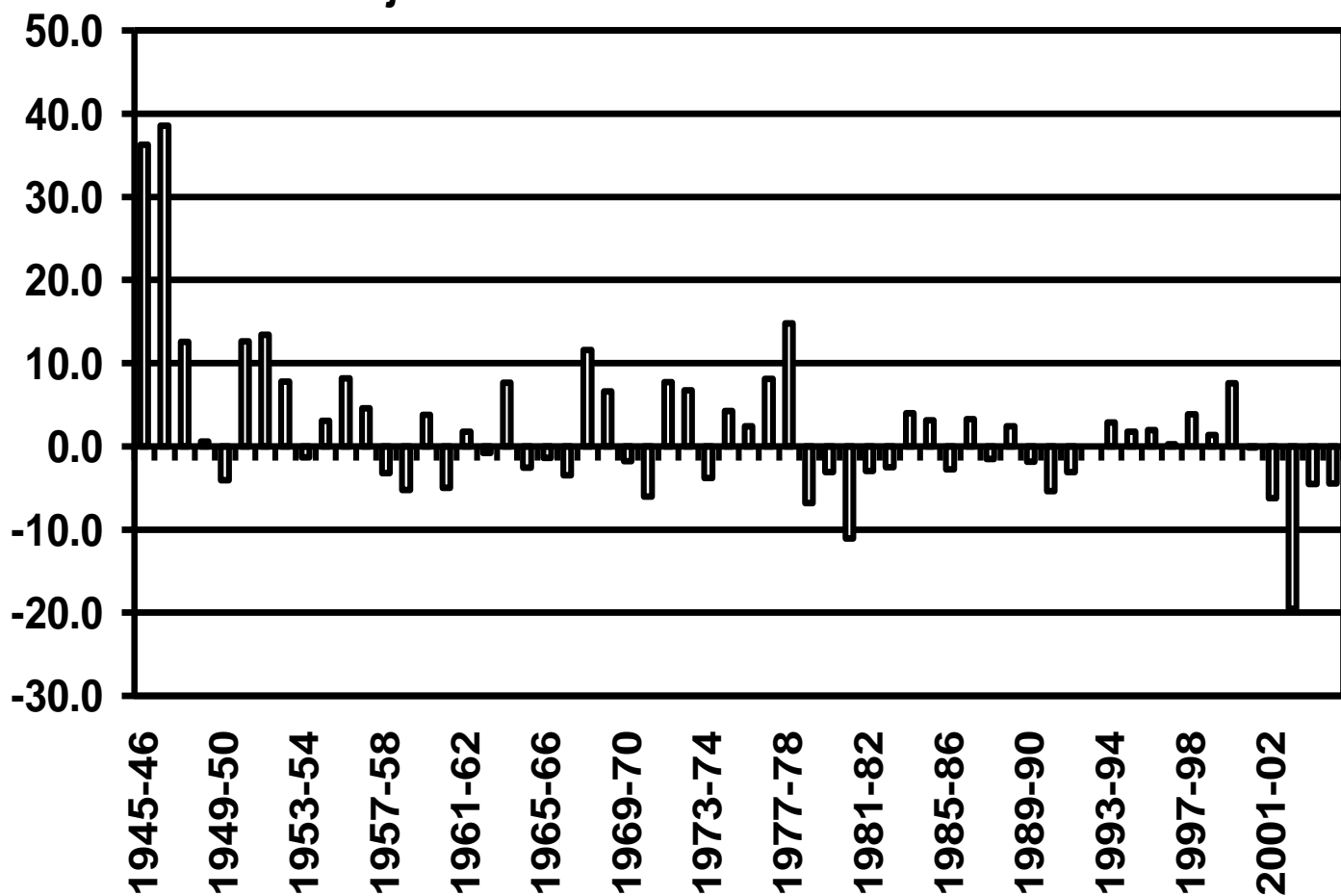
The Age of Compacts

- K-12/K-14 Calif. Teachers Assn.
- Indian Gambling
- Local Governments
- State Employees
- Higher Education



Budget Outcome

Surpluses or Deficits as Percent of
Adjusted Revenues and Transfers



Is this fair?



“You really know how to hurt a guy.”



**Governor Arnold Schwarzenegger
when asked whether his budget
proposals, involving borrowing to cover
deficit spending, were not similar to
former Governor Davis' proposals**



Good feeling/Optimism





“Guys, don’t worry. You see me worry? It’ll be take care of. It’s a piece of cake.”

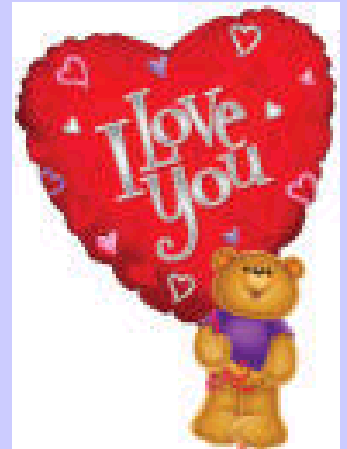
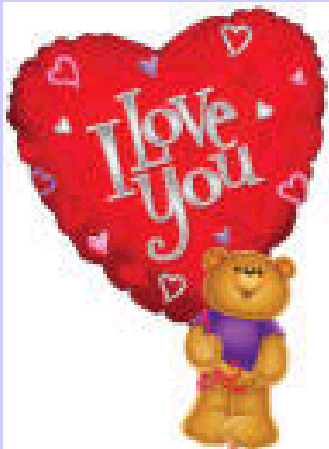


**Governor Arnold Schwarzenegger
commenting on concerns about growth
of state debt under the budget
proposal**

Soft hearted



“You cannot not like this governor. He won’t let you.”



State Senator Sheila Kuehl

Major Borrowing

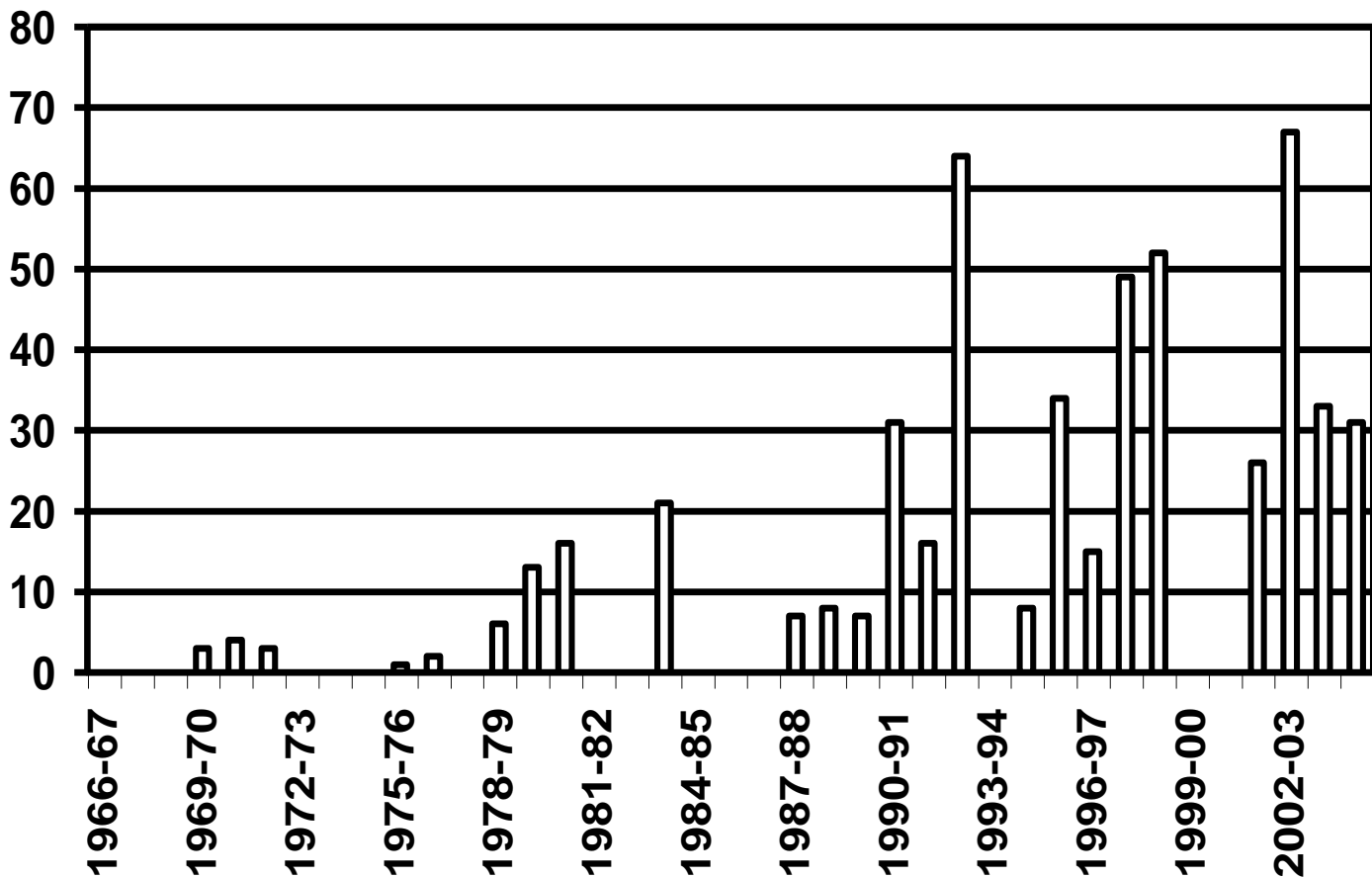


Chronicle / Michael Macor



Budget Delay

Days of Budget Delay Beyond June 30



"Of course we will miss the deadline, but you have to shoot for something; that's my goal. It's the same as shooting for a 500-pound lift and you make it with 495 or something like that. 'Is it disappointing? No, it's great. It's a terrific lift. No one else can do it.'"

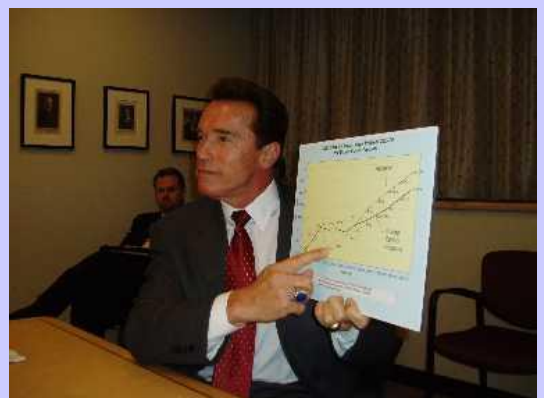


**Governor Arnold
Schwarzenegger
commenting on missing
the June 30 deadline**

*That was then (2004-05)
and this is now (2005-06)*



*“A budget forced on us by
a broken system.”*

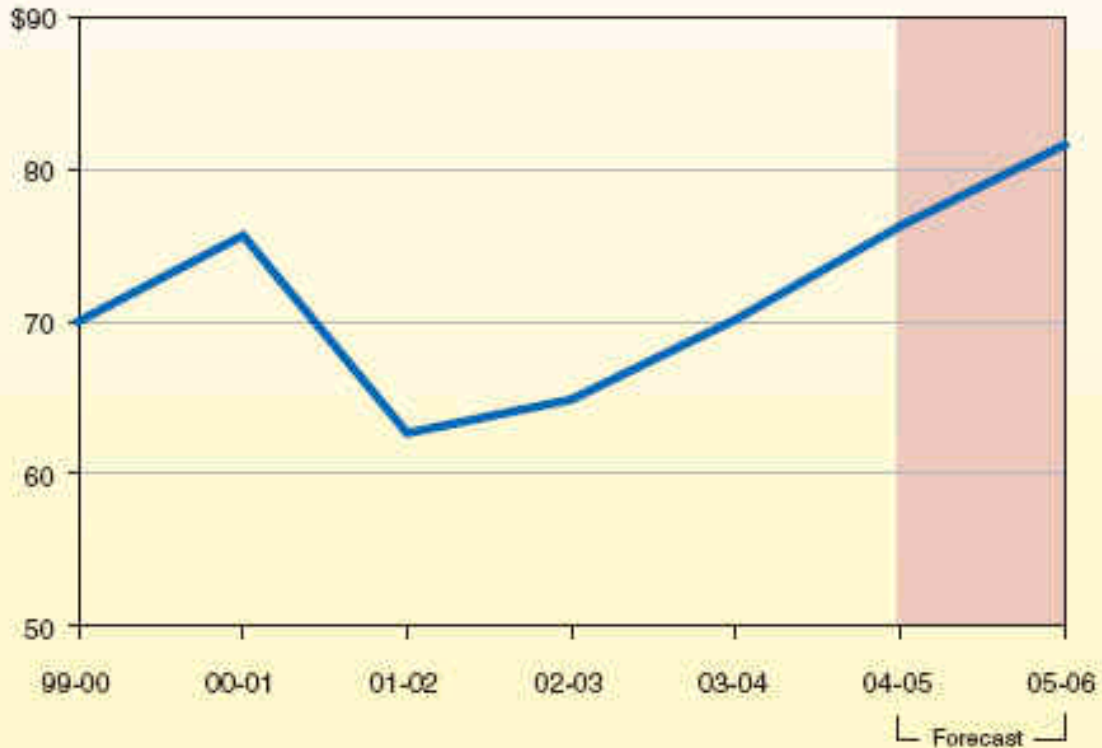


Revenue up to \$81-\$82 billion

Figure 1

Budget Forecasts Continued Rebound in Tax Receipts

Major General Fund Tax Revenues (In Billions)

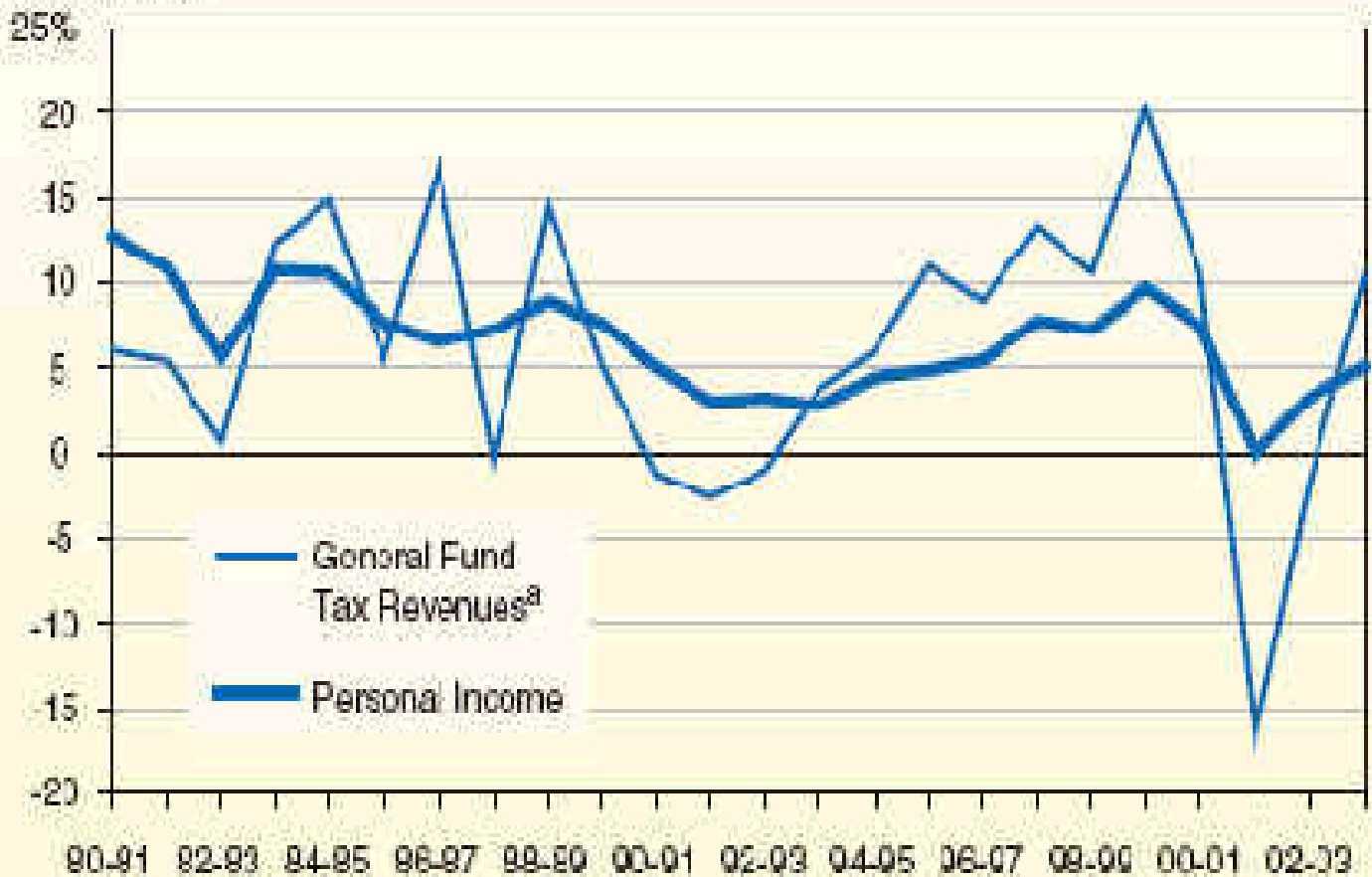


**But expenditures rise
to about \$86 billion**

Not addressed

California's Tax Revenues Have Been More Volatile Than the State's Economy

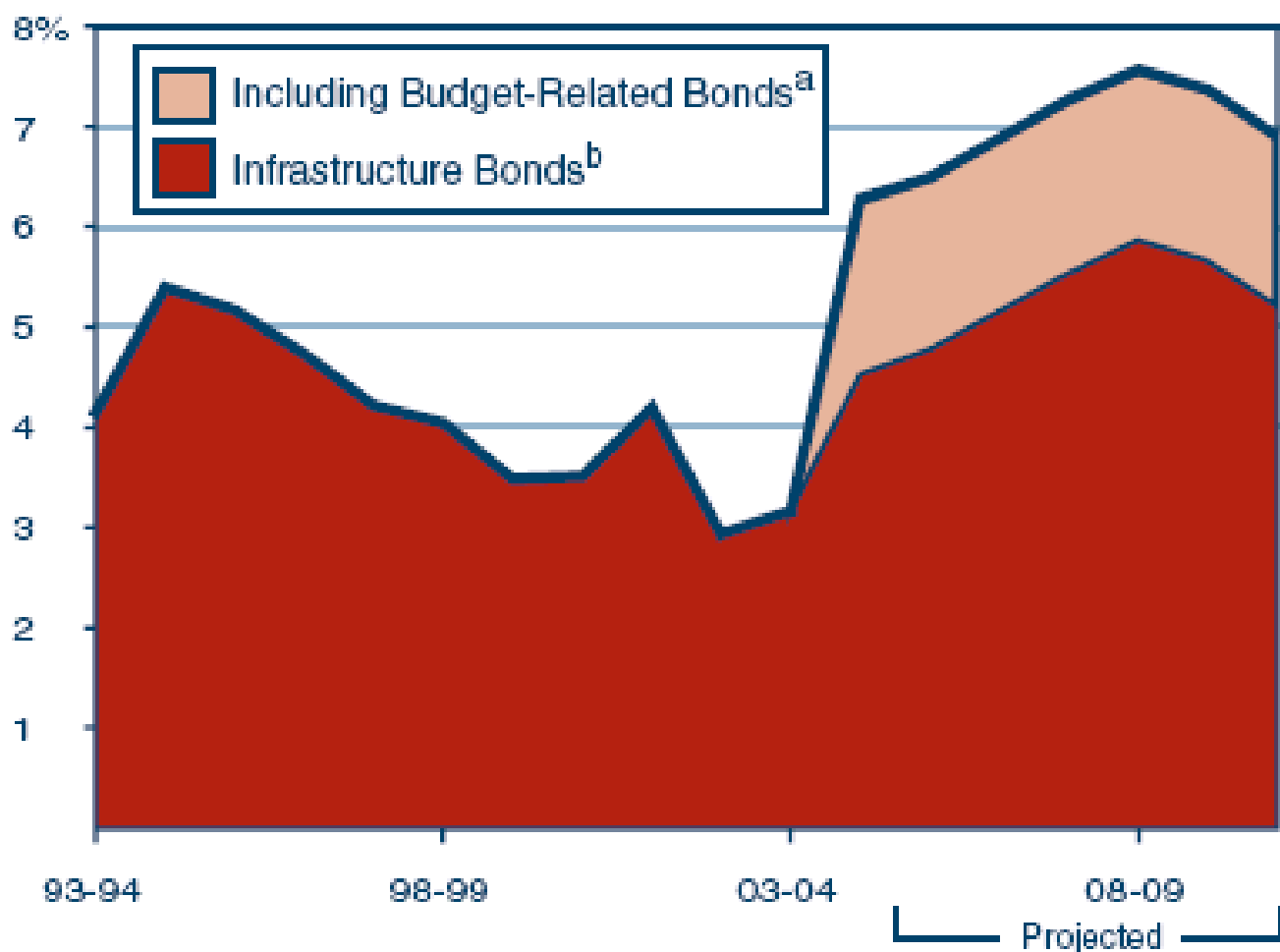
Percent Change



^aData adjusted for law changes.

**Long-term projections
tend to assume smooth
growth. Downside risk >
upside risk.**

Borrowing Legacy



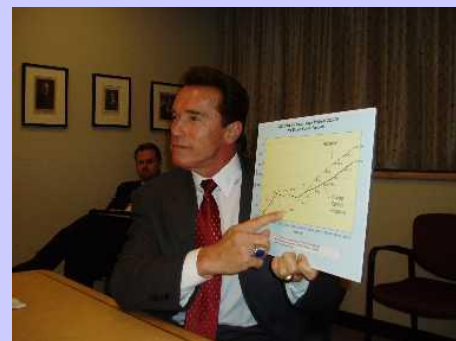
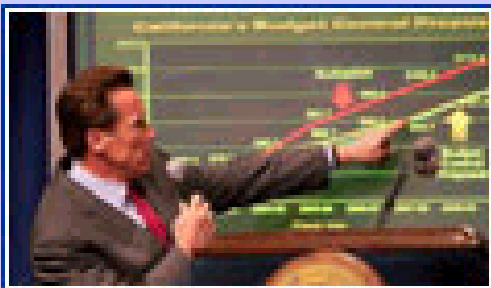
^aIncludes deficit-financing and pension obligation bonds.

^bIncludes general obligation and lease-revenue bonds.

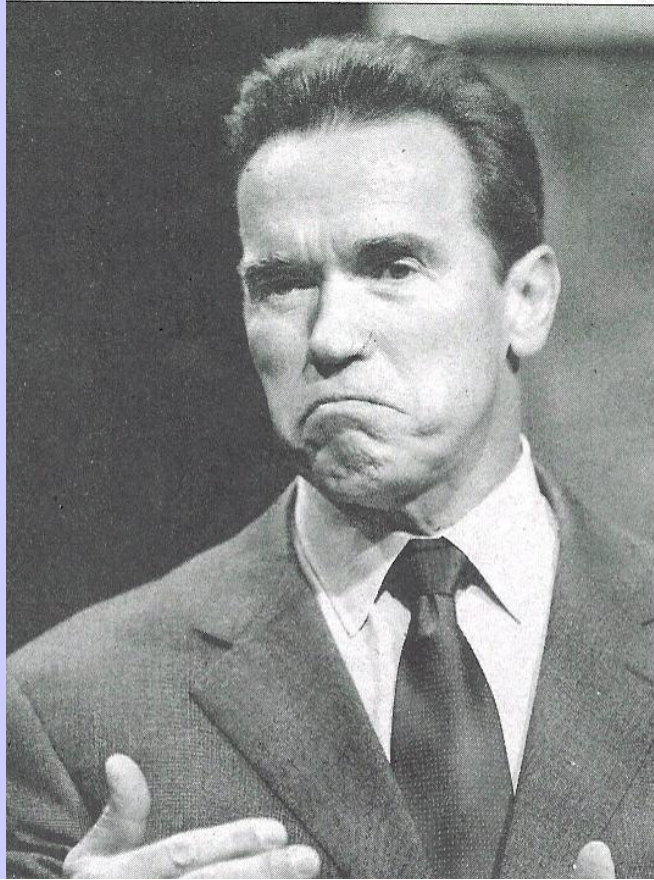
Difference for 2005-06?

Governor has submitted his Jan. budget and called special session:

- **VOIDS Prop 98 compact**
- **De facto pay cuts for state workers (pensions, furloughs)**
- **Takes transportation money**
- **Calif. Performance Review**
- **More borrowing included**
- **Proposed autopilot system that cuts (most) expenditures proportionately if revenue < expenditure**
- **Starve the “monster” rhetoric**
- **Threat to use initiatives**



Difference for 2005-06?



Election 2006

Westly

Angelides

Lockyer



Difference for 2005-06?



Don Perata
President Pro Tem



Fabian Núñez
Speaker

Difference for 2005-06?

**“How are you today
Mr. Legislature?”**



Arthur H. Samish ●

***Collier's*, August 1949**

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